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**SPECIAL REORGANIZATION OF THE SAN FERNANDO VALLEY AND
HOLLYWOOD: COMBINED EFFECTS**

EXECUTIVE OFFICER'S SUPPLEMENTAL REPORT

TO THE

LOCAL AGENCY FORMATION COMMISSION
FOR LOS ANGELES COUNTY

June 3, 2002

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This report has been prepared pursuant to inquiries by Commissioners Miscikowski, Proo and Burke regarding the combined effects of the San Fernando Valley and Hollywood special reorganizations.

The City of Los Angeles has expressed concern about “the combined effects of two or all three of the proposals being adopted simultaneously. Of particular uncertainty is the impact multiple secessions might have on the remaining city.”¹ Although Commissioner Burke asked the City of Los Angeles to provide analysis of the combined effect of special reorganization at the April 24, 2002 Commission meeting, neither the City’s subsequent nor previous correspondence has provided any analysis of this issue. The City has not advanced any hypothesis as to why the combined fiscal effects would exceed the sum of the individual reorganization effects, nor has the City argued that such would be the case.²

Nonetheless, the Executive Officer has identified two areas—transition costs and economies of scale—in which the combined effect might theoretically differ from the sum of the individual effects as assessed in the Executive Officer’s Reports on San Fernando Valley and Hollywood special reorganization.

Transition Costs

Combined transition costs could be higher or lower than the sum of individual transition costs depending on how the LAFCO resolution allocates such costs and the extent to which the transition tasks for Hollywood duplicate transition tasks that must be performed for the San Fernando Valley. There are two types of cost-sharing arrangement for transition costs:

- 1) **All Cities’ Costs:** The draft resolution requires the City and the new cities to share certain transition costs in proportion to assessed value, this cost-sharing requirement applies to about \$700,000 in expenses for the special reorganization election and the cost of redistricting the City of Los Angeles. For the special reorganization election, this manner of apportionment is required by Government Code section 57150(e). The City’s share of these costs would be 95% if only the Hollywood special reorganization is approved, and 60% if both the San Fernando Valley and Hollywood reorganizations are approved. That is reflective, however, of the size of the remaining City of Los Angeles after special reorganization since the costs are apportioned based upon assessed value, and therefore, multiple reorganizations do not have any real cumulative impact on the City’s share of these costs.
- 2) **New Cities’ Costs:** The resolution requires the new cities to bear other transition costs, such as bond validation, revenue collection, photocopying records, computer reprogramming and transferring deeds. In certain cases, such activities would be less expensive if the tasks performed for the San Fernando Valley are of equal use for Hollywood. Given that the resolution does not require the City of Los Angeles to share in

¹ Fujioka, William T. *Draft Resolution of Determination and LAFCO Executive Officer Report regarding the Valley Special Reorganization*, dated April 19, 2002, May 14, 2002, page 6.

² The City’s fiscal consultant has argued that stranded costs for centralized service staffing “as a result of multiple secessions would certainly be different from, and very possibly appreciably higher than, those stranded by a single secession.” (Emphasis added.) The Executive Officer notes that this point does not address the question of the combined effect exceeding the sum of the effects of each proposal. See Hamilton, Rabinovitz & Alschuler, Inc. Revenue Neutrality Issues Related to the Proposed Hollywood Secession. Report to the City of Los Angeles City Administrative Officer, May 31, 2002, page 5.

such costs, there would be no fiscal effect on the City from either or both of the special reorganizations.

The Executive Officer concludes that combined transition costs would be no greater than the sum of the transition costs associated with the San Fernando Valley and Hollywood. The City of Los Angeles' share of transition costs in the event of multiple special reorganizations would be no greater than the sum of the parts.

Economies of Scale

The combined effects of Hollywood and San Fernando Valley special reorganization could be higher or lower than the sum of the individual effects depending on whether or not the City of Los Angeles would lose economies or diseconomies of scale. In this context, "economies of scale" represent lower costs for municipal services due to cost savings attributable to the large size of the City, whereas "diseconomies of scale" represent higher costs for municipal services due to cost inefficiencies attributable to the large size of the City.

The question is whether or not the City could lose economies of scale and related efficiencies if its size were reduced by the combined special reorganizations. In considering this question, it is important to distinguish between the straightforward short-term fiscal effects and long-term efficiency-related fiscal effects.

- 1) **Current-cost fiscal effects** are the subject of the CFA, and are clearly identifiable based on the current cost of servicing the different geographic areas of the City. In the short term, the new cities are expected to contract with the City of Los Angeles for services, and each city is expected to bear its share of service costs based on current practices. So long as the new cities continue to use City of Los Angeles contract services, the current-cost fiscal effects are the only relevant fiscal effects. These short-term and relatively straightforward effects are the fiscal effects contemplated by the Cortese-Knox Act. The current-cost fiscal effects are not relevant to the question of whether or not the City would lose cost efficiencies due to simultaneous departure of the San Fernando Valley and Hollywood, because the City of Los Angeles can only lose economies of scale if the new cities discontinue service contracts. Otherwise, the current scale of City operations would continue to be the same.
- 2) **Efficiency-related fiscal effects** of special reorganization are based on the future cost of servicing the different special reorganization areas. In the long term, the new cities will deliver services in the most efficient manner, if that is what their constituents are demanding. In a rational world, the new cities will establish direct services or contract with the other service providers if that means they can more effectively and efficiently deliver services to their constituents, and will continue to rely on the City of Los Angeles for contract service if that is the more efficient option. In a rational world, the City of Los Angeles will "right-size" and reorganize in the long term to effectively and efficiently deliver services to their smaller constituent base. These efficiency-related long-term fiscal effects differ from current-cost fiscal effects in being determined by the future adaptability, creativity and political priorities of each of these affected cities.

Theoretically, there are two possible scenarios that would cause the combined effect of San Fernando Valley and Hollywood reorganization to differ significantly from the sum of the effects of each proposal. These involve the City losing economies of scale thereby facing higher costs, and the City losing diseconomies of scale thereby achieving lower costs.

The City of Los Angeles could lose economies of scale if both cities were to discontinue relying on the City of Los Angeles for those contract services that the City most efficiently provides. Clearly if there are service areas in which the City of Los Angeles offers efficiencies due to economies of scale, the new cities would have incentives to continue contracting with the City of Los Angeles for service.

Although the bond rating agencies have expressed general concern about the potential loss of economies of scale, they have merely assumed the existence of such economies of scale and failed to provide meaningful examples.³ The City has provided some examples of economies of scale:

- 1) The City has argued that it would lose managerial efficiencies relating to “span-of-control,” or in other words would need to keep most of its supervisors and managers even after the size of the City’s non-supervisory workforce is reduced by one-third. However, the City’s own arguments contradict the notion that the City currently has supervisory cost efficiencies related to the size of the City, because the City indicated that the workload of these supervisors is unrelated to the size of the City. Further, the City has acknowledged that its analysis of this issue assumes that the remaining City of Los Angeles would be organizationally identical to the current City of Los Angeles.
- 2) The City has provided in a submittal received by LAFCO today additional examples including payroll, police computer dispatch, base station radio support and the asphalt plant supporting street resurfacing.⁴

The City did not provide LAFCO with workload data useful in establishing the extent of economies and diseconomies of scale at the City. Interviews conducted by the CFA authors indicate that the City’s department representatives lack workload data for supervisory workers with alleged “span-of-control” efficiencies, in addition to lacking a clear understanding of the connection between workload and post-reorganization staffing levels. The City’s fiscal consultant apparently received and analyzed such data in addition to conducting “marathon” interviews with multiple senior personnel from each agency within the span of a one-month engagement.⁵ However, the reports produced by this consultant do not share any of the “objective” workload data or interview content with readers.

Nonetheless, the City has criticized the Executive Officer for failing to examine “the hard data submitted by the City”⁶, and has criticized the Executive Officer for failing to refer to workload analysis specific to the City to prove that economies of scale would appear to be less relevant than diseconomies of scale.⁷ The City of Los Angeles has never provided concrete examples of economies of scale, objective workload data or a logical argument establishing economies of scale.

³ Doppelt, Amy S. “Two May be Less than One: The Impact of Secession on Los Angeles’ Credit Quality”, *Fitch Ratings*, May 16, 2002. Hoffman, Eric and Ken Kurtz. “What if the San Fernando Valley Secedes from Los Angeles?” Moody’s Investors Service: Municipal Credit Research, June 2001. These articles raise concerns about foregone economies of scale in the case of the San Fernando Valley special reorganization, but provide no examples or evidence of current economies of scale at the City of Los Angeles.

⁴ Fujioka, William T. *Los Angeles County LAFCO Hollywood Proposal for Special Reorganization; Executive Officer’s Report dated May 29, 2002*, May 31, 2002, page 5.

⁵ See Hamilton, Rabinovitz & Alschuler, Inc. *The Division of Service Cost Burdens Following Separation of the San Fernando Valley from the City of Los Angeles: An Independent Appraisal*, May 13, 2002; Hamilton, Rabinovitz & Alschuler, Inc. *Revenue Neutrality Issues Related to the Proposed Hollywood Secession*. Report to the City of Los Angeles City Administrative Officer, May 31, 2002, page 3.

⁶ Fujioka, May 14, 2002, page 12.

⁷ Baxter Culver Government Affairs. Review of Executive Officer’s Report, Special Reorganization of the San Fernando Valley, Report to the City of Los Angeles City Administrative Officer, May 2, 2002.

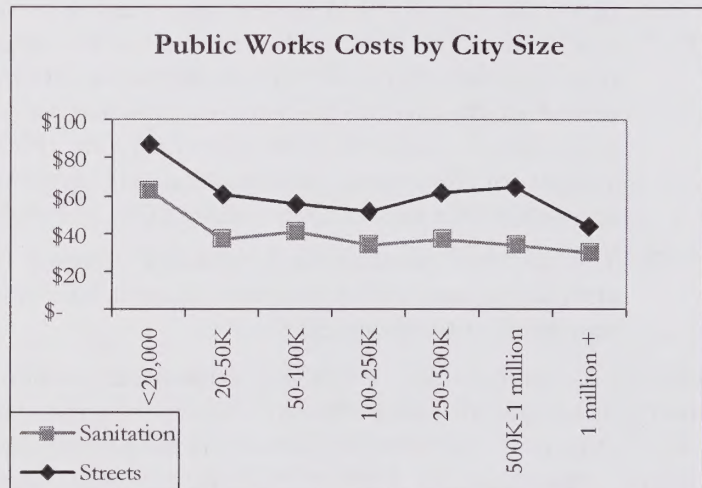
The City has only provided opinions of department managers and City consultants as to the budget cutbacks that the remaining City could undertake if it were to remain organizationally identical to the current City.⁸

The Executive Officer has reviewed academic research by economists and public policy experts on this topic, as well as data on the service costs of American cities.⁹ The Executive Officer has found evidence of economies of scale in public utility service such as wastewater, water and electric service. Special reorganization is not expected to affect economies of scale in public utility services provided by the City of Los Angeles, because the resolution requires the new cities to extend a franchise to the City of Los Angeles for utility service.

In addition, the Executive Officer has found evidence of economies of scale in street maintenance and repair. A Government Finance Officers Association database on American cities indicates that per capita public works costs tend to be lower at larger cities than at smaller cities.

If the City of Los Angeles is like other large American cities in offering economies of scale in street services, that would most likely mean that contracting for service with the City of Los Angeles would be the least expensive service alternative for the new cities. In the evaluation of service costs in the Harbor special reorganization area, the Executive Officer found that the City of Los Angeles public works costs were less expensive than the preliminary estimate made by the County of Los Angeles Public Works Department.¹⁰ If the new cities' least expensive option is to contract for service with the City of Los Angeles, it is reasonable to assume that all cities will have financial incentives to pursue such an arrangement. To the extent that the new cities contract for service with the City of Los Angeles, all three affected cities would continue to reap the cost savings associated with any economies of scale.

The Executive Officer has examined other areas of municipal service, and found more evidence indicating diseconomies of scale than economies of scale in public safety and general government service. The academic and empirical evidence indicate that large cities tend to spend more per capita on public safety than do smaller cities. The preponderance of academic research by economists and public policy experts on this topic indicates that diseconomies of scale are more prevalent in local government than are economies of scale.

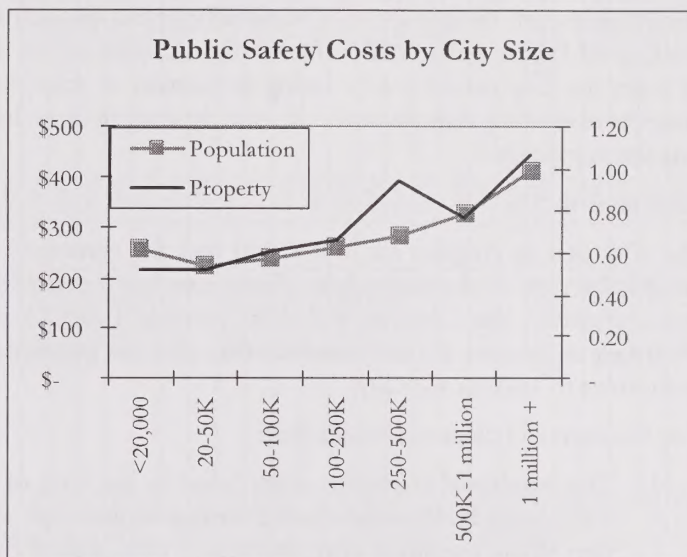


⁸ Local Agency Formation Commission for Los Angeles County. *Special Reorganization of the San Fernando Valley Executive Officer's Supplemental Report*. May 20, 2002.

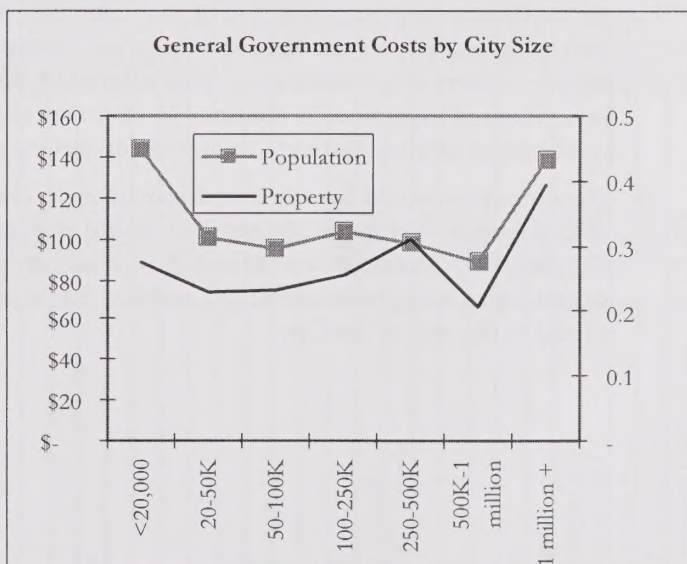
⁹ Local Agency Formation Commission for Los Angeles County. *Special Reorganization of Hollywood Executive Officer's Report*, May 28, 2002. Local Agency Formation Commission for Los Angeles County. *Special Reorganization of the San Fernando Valley Executive Officer's Supplemental Report*. May 20, 2002. Local Agency Formation Commission for Los Angeles County. *Special Reorganization of the San Fernando Valley Executive Officer's Report*. April 24, 2002.

¹⁰ Local Agency Formation Commission for Los Angeles County. *Special Reorganization of the Harbor Area Executive Officer's Report*. May 15, 2002.

If the City of Los Angeles is like other large American cities, it pays relatively more per capita for public safety than do smaller cities. That would most likely mean that the new cities would eventually seek less expensive alternatives to public safety service than contracting for service with the City of Los Angeles. In fact, the Executive Officer found that Los Angeles County Sheriff and Fire would be less expensive service providers in the Harbor Area than the City of Los Angeles. If the new cities are able to save further by providing public safety services directly, it would be reasonable to assume that the new cities would establish their own public safety departments eventually. The evidence indicates that the new cities would most likely achieve some cost savings by discontinuing City of Los Angeles public safety service.



Through employee transfers, natural labor market dynamics or layoffs, the City is expected to reduce its public safety operations in proportion to the reduced size of the service area. In an assessment of the City's arguments regarding increased "stranded" costs in public safety due to special reorganization, the Executive Officer has previously concluded that the City's argument is illogical and inconsistent with evidence that other cities manage to keep costs proportional to city size.¹¹ The Executive Officer concludes that the City could reduce its public safety costs in proportion to the reduction in city size. Whether or not the City will reduce inefficiencies in public safety is unknown.



The Executive Officer concludes that where the City offers cost efficiencies due to economies of scale, the new cities will have incentives to contract for service with the City of Los Angeles to continue to reap those cost savings. In services with existing economies of scale, the affected cities

¹¹ Local Agency Formation Commission for Los Angeles County. *Special Reorganization of the San Fernando Valley Executive Officer's Supplemental Report*. May 20, 2002. Local Agency Formation Commission for Los Angeles County. *Special Reorganization of the San Fernando Valley Executive Officer's Report*. April 24, 2002.

are expected to continue to collaborate in order to provide services most efficiently to their constituents. In services with existing diseconomies of scale, the new cities are expected to eventually seek cost savings through alternative service arrangements. Whether or not the City of Los Angeles will reorganize to achieve efficiencies in such services will be at the sole discretion of the City of Los Angeles, and is therefore, unknown at this time. As there are existing diseconomies of scale, the City would not be losing economies of scale, however, it is conceivable that they could exacerbate existing diseconomies of scale depending upon how the reorganization of the City of Los Angeles is managed.

Conclusion

The City of Los Angeles has not stated that the combined effects of special reorganization would exceed the sum of the individual effects, nor has it provided any rationale why such would be the case. Further, the City has failed to provide LAFCO with objective workload data, and has advanced arguments about stranded costs that are inconsistent with the notion that there are truly economies of scale at the City.

The Executive Officer concludes that:

- 1) The combined transition costs faced by the City of Los Angeles if both the San Fernando Valley and Hollywood special reorganizations are approved would be no greater than the sum of the transition costs associated with each of the proposals.
- 2) The combined fiscal effect of San Fernando Valley and Hollywood special reorganizations on the City of Los Angeles is not substantially different from the sum of the fiscal effects of each proposal so long as the new cities are contracting with the City of Los Angeles for service. If there are economies of scale offered by the City, the new cities and the City would have financial incentives to continue to reap cost savings associated with economies of scale in municipal services through a contract-for-service approach with the City of Los Angeles.
- 3) The new cities would have financial incentives to discontinue service contracts with the City of Los Angeles for municipal services where existing cost inefficiencies relate to the size of the City (i.e. diseconomies of scale). The City of Los Angeles would have financial incentives to reorganize municipal services for which there are existing cost inefficiencies related to the size of the City.

Remaining City of Los Angeles Special Reorganization Area Revenue Allocations
Current Revenues of the City of Los Angeles Net of San Fernando Valley and Hollywood
(Amounts in FY 2000-01 dollars)

	Executive Officer Estimates					
	Based on LA City Actual Revenues (2)					
	Remaining City of LA		San Fernando Valley		Hollywood (Scenario SC4)	
	%	\$	%	\$	%	\$
TOTAL RECEIPTS	69.00%	3,030,048,929	26.74%	1,174,478,876	4.26%	187,076,538
General Fund Revenues	64.04%	2,011,713,176	31.06%	975,587,987	4.90%	154,040,290
Property Tax	59.09%	347,651,768	36.31%	213,630,835	4.59%	27,024,355
Utility Users Tax	58.53%	326,250,789	36.24%	201,998,722	5.23%	29,151,204
Licenses, Permits, Fees & Fines	73.22%	316,039,053	23.51%	101,487,334	3.27%	14,101,388
Sales Tax	48.64%	173,752,305	45.04%	160,892,941	6.32%	22,577,092
Business Tax	64.80%	223,307,329	30.79%	106,094,042	4.41%	15,203,197
State Motor Vehicle License Fees (3)	58.48%	117,592,755	36.53%	73,468,352	4.99%	10,033,271
Power Revenue Transfer	100.00%	119,800,000	0.00%	-	0.00%	-
Transient Occupancy Tax	79.58%	86,372,724	15.68%	17,023,049	4.74%	5,142,480
Municipal Court Fines	69.45%	67,149,769	12.97%	12,543,235	17.57%	16,988,396
Documentary Transfer Tax (4)	55.23%	47,295,041	39.92%	34,187,569	4.85%	4,156,976
Parking Users Tax	87.79%	52,205,716	8.38%	4,981,805	3.83%	2,279,681
Franchise Income (5)	68.51%	35,902,323	27.63%	14,479,763	3.85%	2,019,671
Interest	64.04%	20,244,259	31.06%	9,819,223	4.90%	1,550,243
Water Revenue Transfer	100.00%	25,500,000	0.00%	-	0.00%	-
Grant Receipts	68.21%	12,489,645	26.80%	4,907,338	4.99%	913,575
Transfer from Reserve Fund	64.04%	10,582,028	31.06%	5,132,680	4.90%	810,339
State Budget Relief	59.09%	8,535,290	36.31%	5,244,907	4.59%	663,482
Tobacco Settlement	64.04%	6,133,384	31.06%	2,974,921	4.90%	469,676
Transfer of Reserve Fund Loan	64.04%	5,122,904	31.06%	2,484,800	4.90%	392,296
Transfer from Telecomm. Dev. Account	51.24%	2,336,076	43.76%	1,994,839	5.00%	227,757
Transfer from Reserve Fund--MICLA funds	64.04%	2,561,452	31.06%	1,242,400	4.90%	196,148
Residential Development Fee	71.01%	1,609,981	26.24%	594,858	2.76%	62,564
Civic Center Parking Income	100.00%	1,953,601	0.00%	-	0.00%	-
Transit Shelter Income	61.09%	755,043	32.72%	404,375	6.19%	76,499
Los Angeles Mall Rental Income	100.00%	569,940	0.00%	-	0.00%	-
Special Purpose Fund Revenues	80.45%	954,182,783	16.77%	198,890,889	2.79%	33,036,249
Sewer Construction and Maintenance Fund	100.00%	458,996,463	0.00%	-	0.00%	-
Special Gas Tax Street Improvement Fund	58.48%	70,938,883	36.53%	44,320,442	4.99%	6,052,661
Proposition A Local Transit Assistance Fund	58.48%	43,525,492	36.53%	27,193,395	4.99%	3,713,690
San. Equipment Charge Special Revenue Fund	54.03%	25,818,414	40.86%	19,527,848	5.11%	2,442,007
Street Lighting Maintenance Assessment Fund	76.70%	34,735,287	18.67%	8,453,715	4.64%	2,100,480

Remaining City of Los Angeles Special Reorganization Area Revenue Allocations
Current Revenues of the City of Los Angeles Net of San Fernando Valley and Hollywood
(Amounts in FY 2000-01 dollars)

	<u>Executive Officer Estimates</u>					
	Based on LA City Actual Revenues (2)					
	Remaining City of LA		San Fernando Valley		Hollywood (Scenario SC4)	
	%	\$	%	\$	%	\$
Community Development Trust Fund	70.09%	30,867,056	24.92%	10,974,170	4.99%	2,197,226
Proposition C Anti-Gridlock Transit Impr. Fund	58.48%	20,157,392	36.53%	12,593,721	4.99%	1,719,873
Stormwater Pollution Abatement Fund	43.98%	13,803,838	47.93%	15,045,661	8.09%	2,539,690
Convention Center Revenue Fund	100.00%	30,934,706	0.00%	-	0.00%	-
Local Public Safety Fund	58.78%	17,661,440	36.31%	10,910,151	4.90%	1,473,313
Special Parking Revenue Fund	79.02%	20,013,299	12.25%	3,103,160	8.73%	2,209,859
Zoo Enterprise Trust Fund	100.00%	23,269,900	0.00%	-	0.00%	-
Schedule 29 Allocations from other sources	68.69%	12,800,042	26.80%	4,994,139	4.51%	840,258
Traffic Safety Fund	58.48%	9,676,863	36.53%	6,045,807	4.99%	825,651
L. A. Conv. and Visitor's Bureau Trust Fund	79.58%	12,984,475	15.68%	2,559,087	4.74%	773,073
Spec. Police Communications/911 System Tax	100.00%	15,336,530	0.00%	-	0.00%	-
Job Training Partnership Act Trust Fund	70.09%	8,271,829	24.92%	2,940,884	4.99%	588,818
Workforce Investment Act	70.09%	7,896,840	24.92%	2,807,564	4.99%	562,125
Arts and Cul. Fac. and Services Trust Fund	79.57%	7,064,666	15.69%	1,393,312	4.74%	420,665
Supplemental Law Enforcement Services	58.48%	5,001,228	36.53%	3,124,614	4.99%	426,716
Reserve for Extraordinary Liability Claims	100.00%	8,462,110	0.00%	-	0.00%	-
Rent Stabilization Trust Fund	68.67%	5,712,455	21.04%	1,750,019	10.29%	856,175
Local Law Enforcement Block Grant Fund	67.54%	5,537,940	27.47%	2,251,996	4.99%	409,076
CERS - Airport Revenue	100.00%	8,121,556	0.00%	-	0.00%	-
Code Enforcement Trust Fund	69.34%	5,032,891	25.67%	1,863,201	4.99%	362,137
Spec. Fire Safety and Para. Communications	100.00%	6,393,977	0.00%	-	0.00%	-
Forfeited Assets Trust Fund	58.48%	3,663,970	36.53%	2,289,137	4.99%	312,618
Procurement Reengineering Trust Fund	100.00%	6,124,948	0.00%	-	0.00%	-
Mobile Source Air Pollution	58.48%	3,293,875	36.53%	2,057,912	4.99%	281,041
Affordable Housing Trust Fund	61.09%	3,117,495	33.92%	1,731,328	4.99%	254,628
Building and Safety Sys. Devel. Trust Fund	56.08%	2,618,179	38.93%	1,817,285	4.99%	232,921
HOME Investment Partnerships Program Fund	70.09%	3,167,170	24.92%	1,126,025	4.99%	225,450
Street Damage Restoration Fee Fund	68.91%	3,083,805	26.80%	1,199,377	4.29%	192,013
Telecom. Liq. Dam. and Lost Franchise Fees	51.25%	2,204,385	43.76%	1,882,136	4.99%	214,597
Staples Arena Special Fund	100.00%	3,548,071	0.00%	-	0.00%	-
El Pueblo de Los Angeles Hist. Mon. Rev.	100.00%	2,646,058	0.00%	-	0.00%	-
Household Hazardous Waste Special Fund	58.48%	1,286,233	36.53%	803,599	4.99%	109,744
Arts Development Fee Trust Fund	58.48%	1,161,393	36.53%	725,603	4.99%	99,093
City Employees Ridesharing Fund	93.78%	1,713,436	1.23%	22,457	4.99%	91,158

Remaining City of Los Angeles Special Reorganization Area Revenue Allocations
Current Revenues of the City of Los Angeles Net of San Fernando Valley and Hollywood
(Amounts in FY 2000-01 dollars)

	Executive Officer Estimates					
	Based on LA City Actual Revenues (2)					
	Remaining City of LA		San Fernando Valley		Hollywood (Scenario SC4)	
	%	\$	%	\$	%	\$
Major Projects Review Trust Fund	92.71%	1,692,752	7.29%	133,025	0.00%	-
Landfill Maintenance Special Fund	58.48%	1,029,620	36.53%	643,275	4.99%	87,849
Older Americans Act Fund	100.00%	1,754,293	0.00%	-	0.00%	-
Municipal Housing Finance Fund	61.09%	1,013,290	33.92%	562,739	4.99%	82,763
Neighborhood Empowerment Fund	64.04%	1,014,804	31.06%	492,218	4.90%	77,711
Local Transportation Fund	58.48%	862,688	36.53%	538,981	4.99%	73,606
Community Services Administration Grant	70.09%	976,624	24.92%	347,219	4.99%	69,519
City Ethics Commission Fund	68.91%	784,548	26.80%	305,133	4.29%	48,850
Park and Recreational Sites and Facilities Fund	68.76%	772,388	26.25%	294,874	4.99%	56,046
Housing Opportunities for Persons with AIDS	70.09%	184,730	24.92%	65,677	4.99%	13,150
Disaster Assistance Trust Fund	100.00%	(2,547,544)	0.00%	-	0.00%	-
Bond Redemption & Interest Fund	100.00%	64,152,969	0.00%	-	0.00%	-

Notes:

- (1) Originally proposed boundaries without the eastern portion of the Cahuenga Pass neighborhood.
- (2) Actual City of Los Angeles receipts for fiscal year 2000-01 were 2% higher than receipts anticipated in the City's adopted budget.
- (3) State motor vehicle license fees (VLF) reflect the portion of the City's current VLF revenues that would accrue to the proposed city. Additional VLF revenues would accrue to the proposed city following special reorganization due to a state funding formula that favors newly incorporated cities during their early years. This additional VLF "boost" is reflected in the fiscal viability computations.
- (4) Documentary transfer tax (DIT) estimates reflect the portion of the City's current DTT receipts that are generated in the Valley. Because the proposed city would lack the authority to levy a DTT at the rate currently levied by the City of Los Angeles, the proposed city would not actually receive all the current DTT revenue.
- (5) Franchise income estimates reflect the portion of franchise fees currently generated in the proposed special reorganization area, and do not include potential revenues the proposed city would earn by levying a franchise fee on electric or water utility providers.

Remaining City of Los Angeles Special Reorganization Area Expenditure Allocations
Current Expenditures of the City of Los Angeles Net of San Fernando Valley and Hollywood
(Amounts in FY 2000-01 dollars)

	Executive Officer Estimates (1)					
	Based on LA City Actual Expenses (3)					
	Remaining City of LA		San Fernando Valley		Hollywood (SC4)	
	%	\$	%	\$	%	\$
TOTAL	72.90%	3,269,714,944	23.41%	1,049,969,642	3.70%	165,739,073
Departmental Expenses (5)	68.65%	1,864,410,938	27.10%	735,968,022	4.26%	115,630,002
Legislative	58.48%	16,969,412	36.53%	10,601,969	4.99%	1,447,867
Council	58.48%	11,326,893	36.53%	7,076,696	4.99%	966,435
Mayor	58.48%	5,642,520	36.53%	3,525,273	4.99%	481,432
City Management Functions	65.14%	13,284,330	30.33%	6,184,464	4.53%	924,075
City Administrative Office	69.24%	7,032,390	26.52%	2,693,433	4.25%	431,216
Commission for Children, Youth & Their Families	59.97%	804,289	35.14%	471,355	4.89%	65,579
Commission on the Status of Women	58.48%	270,251	36.53%	168,845	4.99%	23,058
Department on Disability	65.93%	938,217	29.58%	420,965	4.49%	63,900
Emergency Preparedness Department	58.48%	582,069	36.53%	363,659	4.99%	49,663
Environmental Affairs	58.48%	1,270,971	36.53%	794,063	4.99%	108,442
Ethics Commission	68.91%	927,040	26.80%	360,541	4.29%	57,722
Human Relations Commission	58.48%	574,704	36.53%	359,057	4.99%	49,035
Neighborhood Empowerment	58.48%	884,399	36.53%	552,545	4.99%	75,459
Public Safety	66.75%	814,679,139	28.78%	351,265,958	4.47%	54,565,298
Animal Services	58.77%	6,924,829	36.24%	4,269,472	4.99%	587,851
Fire	64.31%	225,448,431	31.69%	111,088,827	4.00%	14,007,938
Police	67.85%	582,305,879	27.49%	235,907,659	4.66%	39,969,509
Public Works & Transportation	71.87%	383,382,118	24.61%	131,255,093	3.52%	18,768,724
Board of Public Works	74.15%	6,661,831	23.32%	2,095,567	2.53%	227,276
Bureau of Accounting	74.15%	3,106,520	23.32%	977,197	2.53%	105,983
Bureau of Management-Employee Services	74.15%	1,148,537	23.32%	361,287	2.53%	39,184
Bureau of Contract Administration	70.44%	14,390,338	27.35%	5,587,047	2.22%	452,588
Bureau of Engineering	76.19%	48,135,736	20.86%	13,179,412	2.94%	1,859,319
Bureau of Sanitation	80.07%	138,456,126	17.93%	31,008,444	1.99%	3,449,130
Bureau of Street Lighting	71.39%	10,320,164	24.89%	3,598,013	3.72%	537,889
Bureau of Street Services	61.45%	88,076,220	35.51%	50,894,850	3.04%	4,362,165
Transportation	70.02%	73,086,647	22.57%	23,553,276	7.41%	7,735,190
Building & Planning	58.63%	43,465,653	36.51%	27,069,656	4.86%	3,603,267
Building & Safety	56.93%	31,283,526	38.08%	20,921,737	4.99%	2,741,477
Planning	63.48%	12,182,127	32.03%	6,147,919	4.49%	861,790
General Government	69.38%	371,336,285	26.17%	140,069,556	4.44%	23,783,269

Remaining City of Los Angeles Special Reorganization Area Expenditure Allocations
Current Expenditures of the City of Los Angeles Net of San Fernando Valley and Hollywood
(Amounts in FY 2000-01 dollars)

	Executive Officer Estimates (1)					
	Based on LA City Actual Expenses (3)					
	Remaining City of LA		San Fernando Valley		Hollywood (SC4)	
	%	\$	%	\$	%	\$
City Attorney	68.94%	54,399,936	26.34%	20,786,771	4.71%	3,718,700
City Clerk	58.48%	9,293,543	36.53%	5,806,321	4.99%	792,945
Controller	68.91%	7,842,520	26.80%	3,050,085	4.29%	488,309
Finance	64.16%	11,061,702	31.37%	5,409,233	4.47%	770,817
General Services	71.49%	151,850,560	24.07%	51,128,235	4.44%	9,438,528
Information Technology Agency	68.91%	60,183,978	26.80%	23,406,539	4.29%	3,747,315
Human Resources	68.48%	76,704,046	27.21%	30,482,371	4.31%	4,826,654
Employee Relations Board	68.91%	216,508	26.80%	84,203	4.29%	13,481
Personnel	67.87%	27,859,354	27.80%	11,412,256	4.32%	1,774,139
City Employees' Retirement Fund (6)	68.91%	46,433,606	26.80%	18,059,345	4.29%	2,891,182
Fire & Police Pension Fund (6)	67.13%	2,194,577	28.34%	926,567	4.52%	147,852
Community Services	73.96%	181,649,997	22.20%	54,508,985	3.84%	9,431,761
Cultural Affairs	75.48%	8,170,368	19.53%	2,113,910	4.99%	540,063
Convention Center	81.33%	53,849,952	16.13%	10,683,517	2.54%	1,681,845
El Pueblo de Los Angeles (6)	100.00%	3,107,204	0.00%	-	0.00%	-
Library (6)	66.51%	33,905,690	29.23%	14,897,867	4.26%	2,172,274
Recreation & Parks (6)	68.38%	68,866,411	26.62%	26,813,691	5.00%	5,037,580
Zoo	100.00%	13,750,372	0.00%	-	0.00%	-
Social Services	68.63%	39,644,004	25.99%	15,012,342	5.38%	3,105,741
Aging	90.32%	2,370,584	7.69%	201,749	2.00%	52,373
Community Development	70.06%	21,148,662	24.95%	7,531,289	4.99%	1,506,082
Los Angeles Housing Department	64.62%	16,124,758	29.17%	7,279,304	6.20%	1,547,286
Non-Departmental Expenses	79.71%	1,230,634,811	17.47%	269,671,935	2.83%	43,654,104
2000 Tax and Revenue Anticipation Notes	67.13%	95,108,489	28.34%	40,155,530	4.52%	6,407,618
Cash Flow TRAns	64.04%	5,276,891	31.06%	2,559,490	4.90%	404,088
Bond Redemption and Interest	100.00%	66,267,469	0.00%	-	0.00%	-
Capital Finance Administration Fund	66.96%	56,540,130	28.53%	24,090,018	4.51%	3,808,675
Capital Improvement Expenditure Program	98.73%	223,017,040	1.07%	2,423,714	0.19%	435,353
Municipal Facilities	91.35%	9,012,555	7.33%	723,466	1.32%	129,951
Physical Plant	91.35%	21,180,787	7.33%	1,700,248	1.32%	305,403
Wastewater	100.00%	192,823,698	0.00%	-	0.00%	-
General City Purposes	71.81%	48,386,356	23.78%	16,019,549	4.41%	2,972,984
LA Convention & Visitors Promotion	79.58%	14,591,714	15.68%	2,875,855	4.74%	868,765
Benefits & Memberships	68.91%	33,794,642	26.80%	13,143,693	4.29%	2,104,219

Remaining City of Los Angeles Special Reorganization Area Expenditure Allocations
Current Expenditures of the City of Los Angeles Net of San Fernando Valley and Hollywood
(Amounts in FY 2000-01 dollars)

	Executive Officer Estimates (1)					
	Based on LA City Actual Expenses (3)					
	Remaining City of LA		San Fernando Valley		Hollywood (SC4)	
	%	\$	%	\$	%	\$
Human Resources Benefits	67.16%	173,911,718	28.33%	73,342,606	4.51%	11,677,911
Workers Compensation	64.04%	59,343,457	31.06%	28,783,797	4.90%	4,544,340
Other Benefits	68.91%	114,568,177	26.80%	44,558,809	4.29%	7,133,572
Judgment Obligation Bonds Debt Service Fund	64.04%	21,971,858	31.06%	10,657,173	4.90%	1,682,537
Liability Claims	64.04%	50,938,924	31.06%	24,707,284	4.90%	3,900,746
Proposition A Local Transit Assistance Fund	58.48%	31,152,921	36.53%	19,463,391	4.99%	2,658,035
Prop. C Anti-Gridlock Transit Improvement Fund	58.48%	12,287,612	36.53%	7,676,923	4.99%	1,048,406
Special Parking Revenue Fund	78.30%	5,331,372	12.97%	883,365	8.73%	594,109
Wastewater Special Purpose Fund	100.00%	255,102,301	0.00%	-	0.00%	-
Water and Electricity	68.91%	21,230,001	26.80%	8,256,949	4.29%	1,321,883
Other Special Purpose Funds	78.04%	164,111,815	18.75%	39,435,944	3.21%	6,741,758
Van Nuys Airport Net Cost (7)	-	-	100.00%	3,444,000	0.00%	-
Budget Surplus (Deficit) (8)	64.04%	84,293,879	31.06%	40,885,685	4.90%	6,454,966

Notes:

- (1) Executive Officer (EO) estimates are based on unrounded cost allocation factors. EO allocation factors are applied to total citywide actual expenditures as reflected in the Mayor's Proposed Budget for the Fiscal Year 2002-03.
- (2) Actual City of Los Angeles expenses for fiscal year 2000-01 were one percent lower than expenses anticipated in the City's adopted budget. Percentage reflects each area's allocation as a percent of total City expenditures in the special reorganization base year.
- (4) Comprehensive Fiscal Analysis (CFA) estimates relate to the territory proposed as the special reorganization area, including Cahuenga Pass. CFA expenditure allocation factors are rounded to yield full-time employee allocations in one-quarter employee increments. CFA allocation factors are applied budgeted expenditures as reflected in the fiscal year 2000-01 Budget adopted by the City Council.
- (5) Departmental expenditures exclude employee benefits, building costs and other overhead attributable to the department.
- (6) These departments receive certain direct revenues that are not included in the City's budget.
- (7) Van Nuys Airport is currently subsidized by the Department of Airports; the subsidy does not post to the City of Los Angeles budget.
- (8) Budget surplus is the difference between total revenues and total expenditures. In the base year, there was a budget surplus.

Executive Officer Remaining City of Los Angeles Fiscal Viability Computations (1)

(Amounts in thousands of FY 2000-01 dollars)

	FY03-04	FY04-05	FY05-06
City of Los Angeles Projected Revenues	4,348,791	4,340,934	4,333,470
Total Current Revenues	3,030,049	3,030,049	3,030,049
General Fund	2,011,713	2,011,713	2,011,713
Special Funds	954,183	954,183	954,183
GO Bond Proceeds	64,153	64,153	64,153
Net revenue increase	149,291	141,826	134,362
San Fernando Valley fiscal mitigation payment	127,953	121,556	115,158
Hollywood fiscal mitigation payment	21,337	20,271	19,204
Debt Payments (2)	114,540	114,540	114,540
Transition Cost Payments (3)	392		
Redistricting	198		
Bond Validation, Revenue Collection	115		
Special Reorganization Election Costs	79		
Purchased Services Payments (4)	1,054,519	1,054,519	1,054,519
San Fernando Valley	909,438	909,438	909,438
Hollywood	145,081	145,081	145,081
City of Los Angeles Projected Expenditures	4,265,194	4,264,105	4,264,105
Total Current Expenditures	3,095,046	3,095,046	3,095,046
Debt Payments	114,540	114,540	114,540
Transition Costs	1,089		
Redistricting	500		
Bond Validation, Revenue Collection	115		
Special Reorganization Election Costs	200		
City of Los Angeles Election Costs	274		
Purchased Services	1,054,519	1,054,519	1,054,519
San Fernando Valley	909,438	909,438	909,438
Hollywood	145,081	145,081	145,081
Budget Surplus/Deficit	83,597	76,829	69,365
Cash Balances			
Reserve Fund Balance Retained	38,424		
Available Balance			
Beginning of year	38,424	122,021	198,850
As % of general fund revenues (5)	1.78%	5.67%	9.27%
End of year	122,021	198,850	268,215
As % of general fund revenues	5.65%	9.23%	12.50%

Notes:

(1) Executive Officer estimates based on territory recommended for special reorganization.

(2) Convention Center, Capital Finance Administration Fund, judgment obligation bonds, workers compensation, and tort liability included under debt payments. Sanitation and parking revenue bonded debt payments included under services purchased from City of Los Angeles.

(3) The City of Los Angeles would bear 60 percent of transition costs for the special reorganization election and for redistricting the remaining City of Los Angeles. Other approved transition costs would be reimbursed by the new cities.

(4) Payment to City of Los Angeles for purchased services includes all current expenditures except Van Nuys Airport subsidy, budget surplus and debt payments.

(5) General fund revenues for remaining City of Los Angeles include fiscal mitigation payments and transition cost payments. The new cities' payments for purchased services and debt are assumed to be treated as special purpose funds by the remaining City of Los Angeles.



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